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**STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING
whether there has been a violation
of the Securities Act of Washington by:

Order No. S-03-189-04-CO01

CONSENT ORDER

Ryan P. Stearns and Stearns Asset
Management, LLC,

Respondents.

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INTRODUCTION

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On October 24, 2003, the Securities Administrator of the State of Washington issued STATEMENT OF CHARGES AND NOTICE OF INTENT TO ENTER AN ORDER TO CEASE AND DESIST, DENY REGISTRATIONS, AND IMPOSE FINES S-03-189-003-SC01 (hereinafter referred to as the "Statement of Charges"), against the Respondents Ryan P. Stearns ("Stearns") and Stearns Asset Management, LLC ("SAM"). The Securities Division and the Respondents Stearns and SAM do hereby agree to this Consent Order in settlement of the above captioned matter. Respondents Stearns and SAM neither admit nor deny the Findings of Fact and Conclusions of Law as set forth below.

FINDINGS OF FACT

I. Respondents

1. Ryan P. Stearns ("Stearns") was a registered securities salesperson in the State of Washington from February 1998 to August 2003. From February 1998 to November 1999, Stearns was employed as a registered securities salesperson with U.S. Bancorp Piper Jaffray Inc. ("Piper Jaffray"), a registered broker-dealer. Stearns was discharged for failing to follow firm policies and procedures with respect to, among other things, initial public offerings ("IPOs") in client accounts. From December 1999 to September 2000, Stearns

1 was employed as a registered securities salesperson with First Montauk Securities Corp. (“First Montauk”).
2 Central Registration Depository (“CRD”) records indicate that on August 17, 2000, First Montauk initiated
3 an internal review to investigate potential changes by Stearns to client records in contravention of firm
4 policy, National Association of Securities Dealers (“NASD”) rules, and state law. First Montauk also
5 reported that Stearns had an unpaid debt to the firm of \$4,500. From September 2000 through May 14,
6 2003, Stearns was employed as a registered securities salesperson and investment adviser representative
7 with UBS PaineWebber Inc. (“PaineWebber”). Stearns was discharged for failing to disclose that he was
8 the subject of a New York Stock Exchange (“NYSE”) investigation. From July 15, 2003 through August
9 7, 2003, Stearns was employed as a securities salesperson with Sterling Financial Investment Group, Inc.
10 of Boca Raton, FL. Stearns was discharged due to the entry of a final NYSE decision, as described below.
11 CRD records indicate that while Stearns was employed at First Montauk, a customer of Stearns alleged
12 Stearns made an unauthorized trade in an IPO in December 2000.

13 2. Stearns Asset Management, LLC (“SAM”) is a Washington limited liability company whose
14 managing member is Ryan P. Stearns. On January 14, 2003 and February 3, 2003, Stearns, on behalf of
15 SAM, filed an application with the Securities Division for registration as an investment adviser, file number
16 30002482. SAM’s application has been pending since February 5, 2003.

17 **II. Nature of the Conduct**

18 *NYSE Final Decision*

19 3. On July 24, 2000, the NYSE’s Division of Enforcement delivered notice pursuant to NYSE Rule
20 477 to Stearns that it was investigating Stearns’s possible redirection of commissions from a team production
21 number to a personal production number, transfer of funds from customer accounts to Stearns’s personal
22

1 account, and Stearns's participation in various IPOs in these accounts. The NYSE requested a written
2 explanation of these matters.

3 4. On May 15, 2001, Stearns was deposed by the NYSE Division of Enforcement.

4 5. In a letter to Stearns dated November 27, 2002, the NYSE Division of Enforcement informed
5 Stearns that it had concluded its investigation and was authorized to initiate disciplinary action. The NYSE
6 invited Stearns to settle with a Stipulation of Facts and Consent to Penalty, or else a Charge Memorandum
7 would be issued.

8 6. On January 24, 2003, the NYSE's Division of Enforcement filed charges against Stearns
9 alleging that Stearns, while employed by member firm Piper Jaffray:

10 i. Engaged in conduct inconsistent with just and equitable principles of trade, by causing
11 shares of IPOs to be allocated to customer accounts and sharing in profits from the sale of
12 such shares;

13 ii. Violated Exchange Rule 352(C), by sharing in profits of IPO transactions in the
14 accounts of customers;

15 iii. Engaged in conduct inconsistent with just and equitable principles of trade, by signing
16 the names of customers to letters of authorization transferring funds into his account; and

17 iv. Caused a violation of Regulation T, Section 220.13 of the Board of Governors of the
18 Federal Reserve System, by advancing funds to purchase an IPO in a customer account.

19 6. On July 28, 2003, the NYSE Hearing Panel issued Decision 03-131 against Stearns. The
20 panel found Stearns guilty as charged. The panel censured Stearns and barred him for a period of eight years
21 from membership, allied membership, approved person status, and from employment or association in any
22 capacity with any member organization. The panel found that at all relevant times, Piper Jaffray's policy

1 prohibited employees from participating in IPOs in which Piper Jaffray was a member of the underwriting
2 syndicate, without prior approval of the firm. The panel found that from September 1999 through November
3 1999, Stearns caused shares of certain IPOs in which Piper Jaffray was a member of the underwriting
4 syndicate to be allocated to four customer accounts. The total profits from the purchase and sale of these IPOs
5 was \$36,781. During this period, a total of \$28,700 of such profits was transferred from the customers'
6 accounts into Stearns's account. Stearns effected two of these transfers by signing customers' names to letters
7 of authorizations transferring funds from the customers' accounts to Stearns's personal account.

8 7. On September 5, 2003, Decision 03-131 became final and effective immediately.

9 *Stearns Asset Management, LLC*

10 8. On January February 3, 2003, Stearns, on behalf of SAM, electronically filed Form ADV, the
11 Uniform Application for Investment Adviser Registration, with the Securities Division. Item 11 E asks, "Has
12 any self-regulatory organization or commodities exchange ever: . . . (2) found you or any advisory affiliate to
13 have been involved in a violation of its rules (other than a violation designated as a "minor rule violation"
14 under a plan approved by the SEC), . . . (4) disciplined you or any advisory affiliate by expelling or
15 suspending you or the advisory affiliate from membership, barring or suspending you or the advisory
16 affiliate from association with other members, or otherwise restricting your or the advisory affiliate's
17 activities?" Part 11 G asks, "Are you or any advisory affiliate now the subject of any regulatory
18 proceeding that could result in a "yes" answer to any part of 11C, 11D, or 11E?" Stearns, on behalf of
19 SAM, answered each item in the negative. Part IB, Item 2 F asks, "Are you, any advisory affiliate, or any
20 management person currently subject to, or have you, any advisory affiliate, or any management person been
21 found liable in, a civil, self-regulatory organization, or administrative proceeding involving any of the
22 following: (1) an investment or investment-related activity, (2) fraud, false statement, or omission, (3) theft,

1 embezzlement, or other wrongful taking of property, (4) bribery, forgery, counterfeiting, or extortion, (5)
2 dishonest, unfair, or unethical practices?" Stearns, on behalf of SAM, answered each item in the negative. To
3 date, Stearns has not filed an update to the Form ADV to disclose the NYSE Division of Enforcement's
4 charges or final decision.

5 Based upon the above Findings of Fact, the following Conclusions of Law are made:

6 **CONCLUSION OF LAW**

7 1. Ryan P. Stearns and Stearns Asset Management, LLC, as described above, have violated
8 RCW 21.20.350 by filing a Form ADV containing one or more false or misleading statements.

9 **CONSENT ORDER**

10 Based upon the foregoing,

11 IT IS AGREED AND ORDERED that Ryan P. Stearns and Stearns Asset Management, LLC shall
12 each cease and desist from engaging in acts and practices in violation of the Securities Act of Washington,
13 RCW 21.20.

14 IT IS FURTHER AGREED AND ORDERED that Respondent Stearns Asset Management, LLC's
15 application for investment adviser registration, file number 30002482, is denied.

16 IT IS FURTHER AGREED AND ORDERED that Ryan P. Stearns and Stearns Asset
17 Management, LLC each shall not make application for nor be granted a broker-dealer, investment adviser,
18 securities salesperson, or investment adviser representative license for a period of ten years from the date
19 of entry of this Consent Order by the Securities Administrator.

20 IT IS FURTHER AGREED AND ORDERED that Ryan P. Stearns shall pay a fine in the amount
21 of Five Hundred Dollars (\$500). Said payment is to be made to the Securities Division prior to the entry
22 of this Consent Order.

1 IT IS FURTHER AGREED that the Securities Division has jurisdiction to enter this Consent
2 Order.

3 IT IS FURTHER AGREED AND ORDERED that in consideration of the foregoing, Ryan P.
4 Stearns and Stearns Asset Management, LLC withdraw their request for a hearing, waive their right to a
5 hearing on this matter and waive their right to judicial review of the Order pursuant to RCW 21.20.440.

6 DATED this 16th day of January, 2004.

7 Signed by:

8 Stearns Asset Management, LLC

9 By /s/ Ryan P. Stearns

10 _____
Ryan P. Stearns, member

11 /s/ Ryan P. Stearns

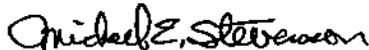
12 _____
Ryan P. Stearns, individually

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THIS ORDER ENTERED THIS 23rd DAY OF January , 2004 BY:

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15 _____
DEBORAH R. BORTNER
16 Securities Administrator

17 Approved for entry by:

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19 _____
Michael E. Stevenson
20 Chief of Enforcement

21 Presented by:

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Andrea Y. Sato

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Enforcement Attorney

CONSENT ORDER

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DEPARTMENT OF FINANCIAL INSTITUTIONS
Securities Division
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